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SUBJECT: BULGARIA: REFORM-MINDED PRIME MINISTER DETERMINED
TO KEEP UP THE PACE

Classified By: Ambassador John Beyrle. For reasons 1.4 (b) and (d)

11. (C) SUMMARY: A feisty and confident Prime Minister Stanishev told the Ambassador Nov. 2 that his government would not let up on reforms. He looks to speed up structural changes, improve government ministries' efficiency and effectiveness, and keep up public support for reform. The Prime Minister stressed the importance of budget and fiscal discipline. He reaffirmed his commitment to strong transatlantic relations, to Bulgaria's participation in NATO and other overseas missions, and a capable military; but he also held firm to a tight defense budget, lower than the Defense Ministry wants and below the current 2.6 percent of GDP. He agreed that more energy and results are needed on rule of law issues, and said that when U.S. investors encounter specific obstacles related to crime or corruption he wants to hear about them personally. END SUMMARY

12. (C) Confident, forward-looking and well prepared as always, PM Stanishev paused only a moment to accept the Ambassador's congratulations on forthcoming EU membership before detailing at impressive length the plans of his government to stay energized in carrying out EU-mandated and Bulgaria-essential reforms and structural overhauls. Stanishev said it is important for Bulgaria not to relax but instead to pick up the pace of reform. This is not merely a question of stricter EU monitoring of Bulgaria (and Romania) in advance of the March EU report, but Bulgaria's political, economic and social evolution and competitiveness. Of course, some time would be spared to celebrate: the government plans a January 1 light-show at Nevsky Cathedral Square, including the nearby mosque, synagogue and Catholic cathedral to spotlight the unity and diversity of Bulgaria as it enters the EU.

13. (C) With new challenges ahead, the Prime Minister is intently focused on a new institutional framework and agenda. He described the difficult budget environment, where the government would lose revenues from VAT and customs, and (initially) from the reduced corporate tax rate (10 percent, the lowest in Europe) while also having to make a substantial contribution to the EU. He centered on the importance of Bulgaria's absorptive capacity for EU funds -- to demonstrate both to the public and the Commission/EU member states that Bulgaria would be a good steward. The Prime Minister spoke with great passion about improving efficiency and oversight, overcoming structural problems (e.g., in education and healthcare) and improving local governance and the judiciary. His dual focus is on administrative capacity and constitutional amendments that would promote faster reform of the judicial system. He aims for political stability and predictability; and plans to move methodically on the economy, budget, and reform to avoid the kind of economic and political spasms that, e.g., Hungary experienced.

14. (C) Stanishev and Beyrle agreed on the strength and vitality of bilateral relations and the security partnership. Stanishev reaffirmed the government's commitments to its international obligations, especially in Afghanistan and Iraq. The Ambassador acknowledged that fiscal and budget discipline were essential, but vigorously pushed for robust defense spending to keep up the momentum of transformation already underway. Stanishev said that Defense would get more money than had been allocated in the initial budget round, but gave no ground on keeping Defense at 2.6 percent of GDP, citing fiscal discipline and competing budget and coalition challenges. Defense would receive more funds, but would end up somewhere around 2.4 percent, probably a bit less. He favored equipping and training troops, but had a cutting comment about procurement priorities, specifically Eurocopter. Stanishev welcomed the new poll numbers showing an upward trend in public approval for a U.S. military presence, and vowed to keep speaking out on behalf of the joint bases.

15. (C) The Ambassador detailed the surge in U.S. investment in 2006, saying he hoped to attract even more in 2007, in part through an "investment roadshow" to selected U.S. cities together with the Bulgarian Ambassador to the U.S. He cautioned, though, that corruption and organized crime undercut his ability to be an effective advocate, and detailed several specific cases of concern to U.S. investors. Complaints over "the price of doing business" with the Agriculture and Environment Ministries (run by the corruption-heavy MRF coalition partner) were increasing, Beyrle said, prompting a knowing grimace from Stanishev. And the influence of Russian-connected mafia syndicates like TIM was dissuading would-be investors. Stanishev said fixing

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these problems would not be accomplished overnight, but he was determined to make progress. He asked the Embassy to bring to his personal attention any cases in which U.S. investors encountered obstacles related to crime or corruption.

16. (C) The Ambassador urged the Prime Minister to follow through on Jewish restitution now that the Commission has issued its report. The Health and Defense Ministries are footdragging; we look to the government to do the right thing.

17. (C) COMMENT: The 40-year old Stanishev represents everything that is going right in official Bulgaria. He knows his policy brief exceptionally well, is forward-thinking and did a remarkably good job in navigating EU entry. To date, the need to preserve the coalition undercuts his ability to do much about corruption in government, but as he gains confidence and stature, he will have additional strength to take on unruly coalition partners. It is our intent to support him in what will be a long fight against corruption.
BEYRLE